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CORPORATE TAX AND INVESTMENT ON NON-FINANCIAL FIRMS IN NIGERIA

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Abstract
The study examined the effect of corporate taxes on investment of non-financial firms in Nigeria, using tertiary education tax. Ex-post facto research design was employed to analyze historical data from 2013 to 2024. Data were extracted from audited annual financial statements of the selected firms. Hypotheses were tested using regression analysis at 5% significance level. The study found that tertiary education tax has a positive and significant effect on the net investing cash flow of listed non-financial firms in Nigeria. Based on the finding, the study recommended that corporate executives and finance departments should integrate TET planning into long-term investment strategies, as the positive effect on net investing cash flow shows that structured compliance with TET can coincide with effective allocation of resources toward productive investment initiatives.

Key words: Corporate taxes, Tertiary education tax and Investment

Introduction

Corporate taxes can impact firm investment through various mechanisms, mainly by affecting the level of profit available for reinvestment and the anticipated returns on new initiatives. Taxes on profits, including corporate income tax and higher education tax in Nigeria, directly decrease retained earnings, a key source of internal funding for numerous companies. This is especially crucial in emerging economies where access to outside financing might be restricted due to elevated interest rates, immature capital markets, or stringent lending requirements. When profits after taxes fall, companies might delay or reduce their expansion strategies, postpone acquisitions of equipment, or cut back on research and development expenses. Research studies present varying evidence concerning these impacts. Certain research suggests that increased tax responsibilities can notably diminish corporate investments, especially in industries where tax loads are substantial (Eyide et al., 2021; Abu et al., 2023). Additional studies indicate that specific tax strategies or savings derived from tax management might encourage investment by releasing funds for capital expenditures (Osegbue et al., 2021; Bande et al., 2025). Capital gains tax can impact investment decisions by influencing the returns investors obtain when they sell assets. Increased taxes on profits might deter changes in portfolios or the development of long-term capital. Even though value added tax is typically transferred to consumers, it can still influence companies indirectly if market circumstances hinder the complete transfer of the tax burden via increased prices. Research examining Nigerian companies indicates that VAT responsibilities may diminish firms' liquidity and ultimately limit their capacity to pursue new investments (Egoh et al., 2025; Ndah et al., 2024).

Corporate taxation and firm investment have gained significant relevance in the current business landscape owing to globalization, swift technological advancements, and heightened competition. Businesses need to consistently invest in equipment, research, workforce, and innovation to stay competitive. Without ongoing investment, companies jeopardize their market position against both local and international rivals (Bande et al., 2025). Investment is vital for generating jobs and enhancing productivity, both essential for raising living standards. Concurrently, governments need reliable revenue streams to support infrastructure, education, healthcare, and security.

In numerous nations, corporate taxes like company income tax, value-added tax, capital gains tax, and sector-specific levies constitute a major share of public revenue (Ndah et al., 2024). In Nigeria, the dependence on tax income has risen as variations in oil earnings have highlighted the risks of relying on one resource. Nevertheless, the business landscape is influenced by the simplicity of tax compliance, clarity of tax administration, and reliability of fiscal policy. When companies cannot or choose not to grow, joblessness might increase, and income advancement may halt, consequently impacting household well-being. Reduced levels of private investment may also deter foreign investors, as they frequently evaluate the local business environment before investing capital (Olugbenga & Adepeju, 2025). In certain situations, companies might implement cost reduction strategies that jeopardize product quality or employee stability, whereas others might relocate operations to areas deemed more advantageous. A sustained drop in business investment can eventually decrease the tax base, leading to a cycle where government income declines even with elevated tax rates. This scenario emphasizes the necessity to assess how corporate taxes affect firms' investment ability and to identify whether the current tax framework facilitates or hinders sustainable economic growth. The research determines the impact of higher education tax on the net investing cash flow of certain non-financial companies in Nigeria.

Review of Related Literature

Corporate tax is a mandatory financial obligation levied by the government on the earnings generated by companies and entities operating within its authority (Opuene & Akenbor, 2025). It signifies the input of companies to government revenue and is determined according to a company's taxable earnings within a defined timeframe (Odusina, 2023). It serves as a governing system that mandates businesses to set aside part of their financial assets for public benefit. Businesses participate in meticulous financial strategizing to meet corporate tax responsibilities while overseeing their operational expenses and profit margins (Adetola et al., 2023). The corporate tax amount can differ based on the company's size, the industry it belongs to, and any specific incentives or exemptions granted by government regulations. These differences guarantee that taxation reflects both the company's ability to contribute and the wider economic goals of the government.

Tertiary Education Tax on Investment

The tertiary education tax is a financial charge placed on businesses to assist higher education establishments in a nation (Onwughai & Ofili, 2025). It mandates that companies allocate a share of their profits to finance universities, colleges, and other post-secondary institutions, guaranteeing that higher education receives funding from the private sector. This tax symbolizes a collective obligation involving both businesses and the government to enhance educational access, improve academic infrastructure, and foster the growth of skilled human resources (Oshiole et al., 2022). It differs from overall corporate taxes as its aim is specifically associated with funding higher education instead of general government spending. The impact of the tertiary education tax (TET) on investment has garnered some attention, revealing generally negative or minimal effects. Ndah et al. (2024) indicated that TET did not significantly impact net investment in industrial goods companies, although the correlation was negative, suggesting that increased TET requirements might marginally restrict firms' liquidity without leading to statistically notable alterations in investment practices. Oshiole et al. (2024) discovered that TET notably decreased net investment in communication companies, indicating that variations between sectors and the size of firms affect capital allocation influenced by TET burdens. Amahalu (2020) also noted adverse impacts of education-linked taxes on net investments in communication companies, highlighting the idea that tax obligations designated for education could redirect resources away from productive investment, particularly in businesses with restricted financial flexibility.

Numerous research studies indicate that TET's influence is interconnected with additional tax responsibilities and company strategies. Bande et al. (2025) noted that effective tax rates and cash effective taxes in consumer goods companies had little impact on investment, yet tax savings—possibly involving decreases in TET obligations—positively impacted investment. Osegbue et al. (2021) similarly highlighted that aggressive corporate tax strategies, via tax planning and optimization, can improve investment, suggesting that companies might mitigate the adverse impacts of TET by carefully managing other tax obligations. These results indicate that TET, while generally limited compared to other taxes, can affect liquidity management and investment choices indirectly via its relationship with overall corporate tax obligations. The sectoral context additionally influences TET's impact on investment. Oshiole et al. (2024) discovered that TET notably limits investment in communication companies, while Ndah et al. (2024) reported an insignificant impact on industrial goods companies. This suggests that capital-heavy industries with larger fixed expenses might show greater resilience to TET, while smaller or more labor-focused companies experience the impact more strongly. Omodero (2024) discovered positive and noteworthy impacts of education tax on equity investment among Nigerian companies, indicating that, in certain situations, TET might indirectly aid in human capital development, which could enhance long-term investment outcomes. Consequently, although TET frequently limits short-term liquidity, its larger function in fostering skilled labor might introduce nuanced trade-offs for companies' investment approaches. In conclusion, the research suggests that TET typically has a detrimental or minimal short-term impact on corporate investment, primarily by limiting the funds available for capital distribution in smaller or financially restricted companies (Ndah et al., 2024; Oshiole et al., 2024; Amahalu, 2020). Nonetheless, the impact varies by context and sector, as industrial companies exhibit resilience, and specific incentives or strategic tax planning assist firms in reducing its effects.

Empirical Review

Bande et al. (2025) investigated how taxation affects corporate investment in publicly traded consumer goods firms in Nigeria. The findings showed that the effective tax rate had a positive yet statistically insignificant impact on corporate investment, implying that changes in the tax load did not significantly affect investment choices. Likewise, the cash effective tax rate demonstrated a positive but insignificant correlation with investment. Adebayo and Francis (2025) evaluated the impact of corporate taxes on the financial outcomes of consumer goods companies in Nigeria. The research emphasized corporate income tax, capital gains tax, and withholding tax, utilizing secondary data sourced from the yearly reports of five chosen companies during the period from 2019 to 2023. Statistical methods for inference, such as Pearson correlation and random effects estimation, were utilized. Findings indicated that corporate income tax was positively and significantly related to financial performance. Ogbonnaya et al. (2025) examined the impact of corporate income tax (CIT) regulations on foreign direct investment (FDI) in Nigeria from 1990 to 2023. The research used an ex post facto design and incorporated yearly time-series data sourced from the Central Bank of Nigeria statistical bulletin, the Federal Inland Revenue Service, and publications by the World Bank. The findings showed that, over time, factors like the CIT rate, GDP growth, inflation, unemployment, and exchange rate have a notable impact on FDI inflows. Olugbenga and Adepeju (2025) examined how tax incentives contribute to investment growth in Nigeria, focusing especially on tax credits as a policy tool. The research employed an Ex Post Facto methodology utilizing information on private investment and foreign direct investment. Descriptive analysis, correlation, one-sample testing, and regression were utilized as statistical methods to assess the effects of tax credits. The results indicated that tax credits have a positive and statistically meaningful impact on both domestic and foreign investment.

Stephen and Temitope (2025) studied how taxation impacts the performance of manufacturing firms listed publicly in Nigeria. Secondary data were collected from the yearly reports of publicly traded building and materials companies for the time frame of 2015 to 2023. Panel regression analysis was used to assess the data. The results indicated that corporate income tax is a crucial factor influencing firm performance, exhibiting a negative coefficient at the 5 percent significance level. Ajagun et al. (2024) investigated the impact of corporate income tax earnings on public investment in Nigeria's agriculture from 1990 to 2022. Utilizing an ex post facto approach, the research utilized data sourced from the Central Bank of Nigeria, the Federal Inland Revenue Service, and the National Bureau of Statistics. The analysis merged descriptive statistics with a completely adjusted ordinary least squares regression method. Results indicated that direct taxes, especially corporate income tax, positively and statistically significantly impact government funding for agriculture at the 1 percent significance threshold. Omodero (2024) investigated the impact of Nigeria's tax framework on equity capital investment by evaluating six types of taxes levied on businesses. Tax revenue data was acquired from the Federal Inland Revenue Service, and equity investment information was gathered from the Central Bank of Nigeria's statistical bulletin covering the years 2011 to 2020. Regression analysis showed that capital gains tax and gas income tax had a negligible effect on equity investment. Conversely, petroleum profit tax and corporate income tax exhibited significant negative impacts, indicating that substantial tax loads deter equity financing.

Methodology

This research utilized an ex-post facto design, suitable for examining causal relationships when the independent variables have already taken place and are beyond the researcher's control. This research examines corporate taxes (such as capital gains tax, value added tax, company income tax, and tertiary education tax) as historical financial responsibilities placed on publicly traded industrial goods companies in Nigeria. This study's population includes ten chosen non-financial companies in Nigeria. The purposive method guarantees that only companies with continuous data histories are examined, allowing for a dependable longitudinal analysis.

Secondary data were obtained from the audited annual financial reports of the chosen companies, available to the public via the NGX website and each firm's corporate investor relations portals. The data span a decade from 2013 to 2024 and encompass reported figures for capital gains tax, value added tax, corporate income tax, tertiary education tax, and net investing cash flow.

Model Specification

This study modified the model by Bande et al. (2025). However, the model above was modified as follows:

$NICF_{it} = \alpha + \beta_1 + \beta_1(TET)_{it} + \epsilon_{it}$ - - - - - - - i

Where:

$NICF_{it}$ = Net investing cash flow for firm i at time t

TET_{it} = Tertiary education tax for firm i at time t

α = Intercept

β, = Coefficients of the respective independent variables

ϵit = Error term

Method of Data Analysis

Descriptive statistics were initially employed to summarize the central tendency, variability, and distribution patterns of all variables. The hypothesis was examined utilizing Panel Least Squares.

Coefficients with p-values lower than 0.05 were deemed significant, suggesting that the related tax type influences net investing cash flow, whereas p-values higher than 0.05 suggested no significant influence.

Data Analysis

Table 1: Descriptive Statistics

	NICF	TET
Mean	18767950	1162374.
Median	251459.0	15489.00
Maximum	124365000	16424000
Minimum	-830938000	0.000000
Std. Dev.	65163422	4056823
Skewness	6.340400	4.436717
Kurtosis	58.64310	16.09355
Jarque-Bera	13048.39	744.2789
Probability	0.000000	0.000000
Observations	120	120

Table 1 showed the descriptive statistics for net investing cash flow (NICF), indicating that the chosen industrial goods companies in Nigeria had an average NICF of 18,767,950 during the analyzed period. This unfavorable average implies that, on average, the companies were spending more on investments than they were earning from investment returns, showing net cash outflows. The standard deviation of 65,163,422,000 indicates a significant spread around the mean, highlighting considerable variability in the investment behavior among the companies. The skewness of 6.340 signifies a strongly left-skewed distribution, indicating that significant negative outliers are dragging the mean down, whereas the kurtosis of 58.843 demonstrates a leptokurtic distribution characterized by distinct peaks and fat tails. The Jarque-Bera probability of 0.000 indicates non-normality; however, the central limit theorem suggests that a sample size of 90 observations could enable inferential statistics to approximate normality for hypothesis testing.

The table recorded a mean of 1,162,374 for tertiary education tax (TET), indicating that, on average, firms contributed relatively modestly compared to other taxes. The standard deviation of 4,056,823 suggests considerable variation considering the magnitude of several payments. A skewness of 4.437 indicates a positively skewed distribution, where the majority of firms paid below the average, while a small number of outliers paid notably more. Kurtosis of 16.094 indicates a leptokurtic distribution characterized by heavy tails. The Jarque-Bera probability of 0.000 indicates non-normality, yet the central limit theorem implies that analyses may still be statistically sound despite the dataset's skewness and kurtosis.

Test of Hypothesis

Table 2: Regression Analysis

Dependent Variable: NICF
Method: Panel EGLS (Cross-section SUR)
Date: 08/09/26 Time: 09:23
Sample: 2013 2024
Periods included: 12
Cross-sections included: 10
Total panel (balanced) observations: 120
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TET	24.77412	1.526644	16.22783	0.0000
C	-3458284.	253686.6	-13.63211	0.0000

Weighted Statistics

R-squared	0.981445	Mean dependent var	-1.430938
Adjusted R-squared	0.980133	S.D. dependent var	6.476822
S.E. of regression	0.970453	Sum squared resid	80.05118
F-statistic	703.1466	Durbin-Watson stat	1.893905
Prob(F-statistic)	0.000000		

Table 2 displays the findings of the regression model analyzing the impact of tertiary education tax (TET) on net investing cash flow (NICF) for publicly traded industrial goods companies in Nigeria. The model demonstrates an exceptionally high adjusted R-squared of 0.98, suggesting that around 98% of the variability in NICF is accounted for by the four tax variables incorporated in the model. This indicates a strong model fit, implying that the selected tax variables together explain almost all the systematic variation in companies' investment flows. The Durbin-Watson value of 1.894 is nearly 2, suggesting little autocorrelation in the residuals, thereby increasing the trustworthiness of the coefficient estimates.

Moreover, the overall F-statistic is very significant (Prob (F-statistic) = 0.0000), confirming that the explanatory variables collectively have a statistically significant impact on NICF at the 5% level. The negative coefficient suggests that without TET, the NICF of firms would remain negative, indicating a fundamental net disinvestment tendency within the analyzed industrial goods companies. Its importance at the 5% level verifies that this baseline effect isn't simply due to random fluctuation, offering a substantial benchmark for understanding the marginal impacts of the tax variables. The research thus concludes that the tax on tertiary education positively and significantly impacts net investment income.

Conclusion

The findings of this research emphasize the intricate influence that various corporate taxes have on investment decisions among industrial goods companies in Nigeria, showing that taxation does not consistently restrict capital formation but may also encourage it in specific circumstances. The notable positive impact of higher education taxes on net cash flow from investing indicates that certain tax responsibilities might motivate companies to strategically

manage resources, possibly by utilizing tax incentives, reinvesting retained profits, or refining financial strategies to improve long-term productivity. The beneficial impact of tertiary education tax on net investing cash flow suggests that companies may perceive TET as an organized tax, allowing compliance to align with strategic resource planning for investments.

This result corresponds with research by Omodero (2024) and Alpheaus et al. (2024), indicating that TET can positively or neutrally influence company performance and investment when companies incorporate tax responsibilities into financial strategies. The positive trend can be attributed to companies viewing TET as a foreseeable obligation, enabling them to strategize investments in relation to tax liabilities. Optimal Tax Theory indicates that when taxes are designed to be sustainable and predictable, companies can efficiently allocate resources without jeopardizing investment, potentially explaining the observed positive impact of TET on net investing cash flow. Adhering to TET could also improve companies' long-term strategic positioning and facilitate access to government-backed programs, thereby indirectly bolstering cash flow for investment needs.

According to the findings, the research advised that corporate leaders and finance teams should incorporate TET planning into their long-term investment strategies, since the favorable impact on net investing cash flow indicates that structured adherence to TET can align with efficient resource allocation for productive investment efforts.

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